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TAGS: EFIN EINV ECON PREL CH
SUBJECT: NYSE/NASDAQ: NO OFFICES, BUT STILL OPEN FOR BUSINESS

REF: A. SHANGHAI 45

¶B. 06 SHANGHAI 6347
¶C. SHANGHAI 25

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¶1. (SBU) Summary: Seeing China as the next great frontier for emerging markets, the New York Stock Exchange (NYSE) and NASDAQ have been engaging in a "Great Game" to persuade Chinese companies to list on their respective exchanges. Chinese entrepreneurs view being listed on U.S. markets as the sign of having "made it," and Chinese company initial public offerings (IPOs) were some of the biggest stories last year on the U.S. market. However, the China Securities Regulatory Commission (CSRC) has not yet allowed NASDAQ and NYSE to open representative offices as promised in December 2006, making it difficult for the exchanges to attract Chinese businesses. Despite these problems, NASDAQ and NYSE officials expected to see more Chinese companies listing on their exchanges in 2007. End summary.

¶2. (SBU) China's economic growth and opening process has led to the creation of flourishing private companies and privatization of many state owned enterprises. NASDAQ Senior Managing Director/Head of Asia Pacific James Ogilvy-Stuart and Asia Pacific NYSE Group Executive Director Michael Yang, in separate meetings with Econoff on January 19 and January 23, said Chinese companies viewed listing on U.S. stock exchanges as a sign of having "made it" and there was considerable "face" gained. Chinese company owners liked the prestige of having passed the stringent listing-requirements posed by U.S. regulators and exchanges. Some companies sought listing despite not actually needing access to additional capital (Ref A).

¶3. (SBU) Both exchanges were actively competing with one another to find companies that were able to list. In one case last year, NASDAQ wooed a Chinese solar energy company, Canadian

Solar, Inc., away from NYSE less than a month before its planned listing date. While the majority of companies that have listed on the two exchanges have been unsolicited "walk-ins," both exchanges have started a process of actively pursuing companies. In addition to competing with each other for companies that want to list outside of China, the exchanges have also competed with other countries' exchanges, notably those in Hong Kong, London, and Singapore.

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Waiting on the Regs: NYSE/NASDAQ Offices Not Yet Open
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¶4. (SBU) NASDAQ and NYSE have not been allowed to open official offices in China, a major obstacle to doing business in China. With no official presence in China, Mainland companies have found it almost impossible to locate NYSE and NASDAQ's representatives. While both exchanges had representatives in China, their business cards listed Hong Kong or New York offices and they relied on word of mouth to spread their contact information. (Note: In the lead-up to Secretary Paulson's September visit to Hangzhou, Congenoffs also struggled to locate the NYSE/NASDAQ country representatives. We finally located them through a contact at the Shanghai Stock Exchange. End note.)

¶5. (SBU) In a January 25 meeting held in Beijing as part of the U.S.-China Financial Services Working Group, Treasury Department Deputy Assistant Secretary Mark Sobel asked China Securities Regulatory Commission (CSRC) International Director Zhang Weiguo about the status of China's Strategic Economic Dialogue commitment to allow NASDAQ and NYSE to open representative offices. Zhang responded that the CSRC had not yet completed the drafting of regulations required to allow international securities exchanges to open offices. He expected this process would be done by the end of March, though he was not certain

that this timing would also include the mandatory "public consultation" time on such regulations. Zhang said that if the consultation process was not "smooth" then there would be delays. Sobel informed Zhang of continued high-level U.S. interest in this issue. He noted that reforming China's financial service sector was of great importance to the U.S. and critical to China's continued economic growth. Zhang acknowledged the importance of allowing NASDAQ and NYSE to open their offices, noting that "the political decision has been made, but we are still working on the process." (Note: Econoff attended the FSWG meetings in Beijing, January 25-26. End note.)

¶6. (SBU) Both NASDAQ's Ogilvy-Stuart and NYSE's Yang expressed their gratitude for Secretary Paulson and Ambassador Randt's efforts on their behalf to secure permission from the Chinese government to open offices. The dinner that Secretary Paulson hosted in Hangzhou (Ref B) created a great deal of "buzz" in China's entrepreneurial circles according to Yang. He had been approached by lots of businessmen and government officials who wanted to know what had been discussed in this "private" meeting and how they might secure invitations to a future meeting. Both wxchanges were ready to submit applications as soon as the CSRC informed them of the requirements. Continued efforts by the USG to work on their behalf, with the CSRC, were greatly appreciated.

Why List in the U.S.?

¶7. (SBU) Yang and Ogilvy-Stuart, separately, outlined the main reasons that Chinese chief executive officers give them for listing on the U.S. exchanges:

- The U.S. continued to be the largest source of available liquidity and companies were able to get a higher valuation than they would have received in Hong Kong, Singapore, or even London. In general, high technology and energy companies received a higher P/E ratio from U.S. investors. Rightly or

wrongly, said Ogilvy-Stuart, U.S. investors had a great deal of confidence in "anything China," and therefore they might not scrutinize Chinese stocks in the same way that they would U.S.-based stocks.

- Yang told Econoff that historically Chinese people, for "cultural reasons that are deeply rooted in their minds" have seen the U.S. as having the best and strongest economy. For Chinese entrepreneurs, listing in the U.S. is "their final target, their final dream and like winning the Oscar." Ogilvy-Stuart said that with all of the competition in China, being listed in the U.S. provided the Chinese company with the cachet of being a leading company in China. Even the companies that do not need the capital, still wanted to list. Yang quoted Suntech's Shi Zhengrong as saying, "The best company needs to be listed on the best exchange." Listing in the U.S. therefore was an "honor" and something that "face-conscious" Chinese businessmen wanted.

- Listing on an overseas exchange, particularly the U.S. improved their company's visibility overseas. Mindray's chairman told Yang that 50 percent of his business originated from overseas. Being listed on the NYSE gave his non-domestic prospective-customers greater confidence in his company and led to increased sales. Companies liked the international recognition they could get from being listed.

- More and more Chinese companies were seeking merger and acquisition (M&A) opportunities in global business consolidation. Using stock rather than buying companies with cash had been seen as a viable opportunity for listed companies. Yang said that Suntech bought one of Japan's premier solar power companies by using a combination of stock and cash -- in what he believed was the first time a Japanese company was purchased using something other than cash alone.

- China's internal cities found it difficult to attract and retain quality people. A company that was listed on NYSE/NASDAQ was in a better position to provide assurances to prospective employees that that their opportunity costs of taking a job in the interior was worth the risk. Yang said that this had been especially true for recruiting returning Chinese students from the United States. A U.S. listing made these companies "much more attractive" and demonstrated that despite being located in an economically depressed area, the company itself was more stable and had better prospects.

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After Clearing China's Barriers, None to Entering U.S.
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¶8. (SBU) Ogilvy-Stuart said that in the past, Chinese companies usually took six to eight months to complete the Chinese paperwork necessary to allow them to list. Once this was completed and they had met USG standards for listing, there had been no particular USG regulatory hurdles for Chinese companies. Both Yang and Ogilvy-Stuart noted that Sarbanes-Oxley had increasingly been seen as not a problem or insurmountable hurdle.

¶9. (SBU) According to Yang, however, new Chinese regulations governing M&As, the Interim Provisions for Foreign Investors to Merge Onshore Enterprises, meant that any Chinese company seeking to list overseas via a special purpose vehicle (SPV) and therefore transfer company assets overseas must be approved by six government agencies. These were the Ministry of Commerce, State Assets Supervision and Administration Commission, State Taxation Bureau, State Administration of Industry and Commerce, State Administration of Foreign Exchange and have final China Securities Regulatory Commission approval. Since September 8, when these regulations came into affect, Yang knew of no Chinese company that had successfully obtained this approval. In fact, he knew of no company that had successfully gotten approval from even a single agency, although he was aware that "many companies

have tried." As Yang put it, the end result was that Chinese companies had been unable to reorganize, unable to get the injection of capital that they needed to grow, and this was hurting the Chinese. While not every company needed to go through the SPV process to list overseas, Yang said that this had been the method-of-choice for most companies listing in the United State.

NASDAQ in China

¶10. (SBU) Ogilvy-Stuart told Econoff, on January 19, 2007, that there were 34 Chinese companies listed on NASDAQ. These companies represented a broad range of industries from advertising and hotels to high-tech internet companies and medical equipment manufacturers. In 2006, six Chinese companies had their initial public offering (IPO) on NASDAQ. Two of the ten top performing IPOs in 2006 were Chinese companies -- e-Future Information Technology Group (EFUT) closed the year up 531 percent from its October 2006 listing and Home Inn (HMIN) ended 2006 up 139 percent from its October 2006 listing. He said that China was a key strategic region for NASDAQ and expected that 2007 would see more Chinese companies list on NASDAQ than in 2006.

NYSE in China

¶11. (SBU) Yang told Econoff on January 23 that there were 22 Chinese companies listed on NYSE. The first of these was Brilliance Automotive Company in 1993. In 2006 - there were three 3 IPOs (New Oriental, Mindray, Trina) and one company

transferred from the London Stock Exchange's AIM board to NYSE (American Oriental Biotech). Yang expected that there would be about eight IPOs in 2007. Yang said that prior to 2005 most small/medium-sized (SME) private companies did not consider listing on NYSE which had mainly attracted large state-owned enterprises. However, the very successful listing of privately-held Suntech in 2005, was a turning point and many SMEs had considered listing on the NYSE.

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SHANGHAI'S EXCHANGE, NYSE/NASDAQ: NOT IN COMPETITION
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¶12. (SBU) While NYSE and NASDAQ competed with one another and other international exchanges for companies, both noted that they viewed their own exchanges as fundamentally complementary of mainland China's two exchanges - the Shanghai and Shenzhen Stock Exchanges. Shanghai Stock Exchange (SSE) Deputy Director Chao Kejian, in a December 8, 2006 meeting with Congenoffs shared the same view. The SSE did not view NYSE and NASDAQ as competitors. Rather the U.S. exchanges allowed companies that might not be able to list in China due to Chinese regulatory and profitability requirements access to much-needed capital. He noted that he had even advised some companies, such as information technology companies, to pursue listing in the U.S. since they would have better valuations there than they could achieve in China. He hoped that these companies would eventually return to be listed on the SSE, but in the near- to mid-term, listing overseas was in their best interests. While NYSE and NASDAQ were not viewed as competition, Chao noted that the Hong Kong Stock Exchange was. (Note: See Ref C for more information on the SSE and its relationships with NASDAQ and NYSE.)

¶13. (U) DAS Sobel cleared on paragraph 5 of this report.
JARRETT